

Submitted via email: [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

November 7, 2019

Ms. Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

Re: Docket Number: OP-1670  
Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Ms. Misback:

The Independent Community Bankers of America (“ICBA”)<sup>1</sup> is pleased to submit comments regarding the Federal Reserve Board’s (“Board”) request for comment on the FedNow<sup>SM</sup> Service (“FedNow” or “Service”), a new interbank 24x7x365 real-time gross settlement service (“RTGS”) to support faster payments in the United States. The Board also plans to explore whether to expand hours for the Fedwire® Funds Service (“Fedwire”) and the National Settlement Service (“NSS”), up to 24x7x365, to support a wide range of payment activities, including liquidity management in private-sector real-time gross settlement services for faster payments.

### Background

In November 15, 2018, the Board published a Federal Register notice (2018 Notice) seeking public comment on potential actions that the Federal Reserve could take to advance the

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<sup>1</sup> *The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. With more than 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ nearly 750,000 Americans and are the only physical banking presence in one in five U.S. counties. Holding more than \$5 trillion in assets, nearly \$4 trillion in deposits, and more than \$3.4 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at [www.icba.org](http://www.icba.org).*

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development of faster payments and support the modernization of payment services in the United States. The Board requested comment on two potential services that could be developed by the Reserve Banks: (i) an interbank 24x7x365 RTGS to support faster payments and (ii) a liquidity management tool that would enable transfers between accounts held at the Reserve Banks on a 24x7x365 basis to support real-time interbank settlement of faster payments.

The Board, after reviewing public comments, determined that the Reserve Banks should develop a new interbank 24x7x365 real-time gross settlement service, called the FedNow Service, to support faster payments. The Board's analysis determined that the Service would provide a "clear" public benefit, and that the Service would meet the requirements of the Depository Institutions Deregulation and Monetary Control Act of 1980 ("MCA"), as well as the Board's criteria for new or enhanced Federal Reserve payment services in the Board's policy, "The Federal Reserve in the Payments System."

The FedNow Service, once operational, would conduct real-time, payment-by-payment, final settlement of interbank obligations through debits and credits to banks' balances in accounts at the Reserve Banks. The Service would incorporate clearing functionality, allowing banks, in the process of settling each payment, to exchange the information needed to make debits and credits to the accounts of their customers. The Service's functionality would support banks' (or their agents or correspondents) provision of end-to-end faster payments to their customers.

The Board has also announced its intent to explore the expansion of hours for the Fedwire and the NSS, up to 24x7x365, subject to additional analysis of relevant operational, risk, and policy considerations. The Board believes that expanded hours for the Fedwire and NSS would be the most effective way to provide the liquidity management functionality described in the 2018 Notice and could provide additional benefits, beyond support for faster payments. The Board plans to seek public comment on plans to expand hours for the Fedwire Funds Service and NSS in a separate request for comment.

### **ICBA Comments**

ICBA strongly applauds the Board's decision to develop a real-time gross settlement system, FedNow, in support of faster payments. FedNow will ensure universal access to real-time payments, avoid a megabank monopoly, and encourage innovation that will provide a multitude of benefits for community banks nationwide and the consumers and businesses they serve.

A Fed-operated real-time gross settlement system will ensure industry-wide access and is consistent with the roles it already serves in providing payments services to nearly 11,000

financial institutions of different sizes and charter types. Fed involvement also will avoid the risk of having only one, for-profit settlement service run by the nation's largest and riskiest financial institutions. Further, expanding access beyond this private-sector monopoly will provide choice, encourage innovation, foster settlement resiliency and avoid a fragmented marketplace.

ICBA and the nation's community banks have long supported the Fed's role in real-time payments, as illustrated in messages to policymakers, op-eds, ads and hundreds of ICBA and community banker comment letters strong encouraging the Federal Reserve to develop a real-time gross settlement system.

Highlights from our comment letter are noted below.

- ICBA understands the complexity of developing and launching FedNow, and the need to balance speed to market with essential features. ICBA strongly urges the Board to proceed to go to market with a minimally-viable FedNow Service that would allow community banks the choice of using either FedNow or The Clearing House's RTP® network or both.
- ICBA generally supports the initial FedNow design, including access through FedLine, and the "business day" definition.
- ICBA urges the FRS to consider and accommodate core-independent models, such as payment hubs, as many early-adopting banks are interested in connecting to FedNow outside of the core.
- ICBA urges the FRS to adjust the transaction dollar limit from \$25,000 to an amount in keeping with private sector networks.
- ICBA urges the FRS to reconsider, revise or initially eliminate the message inquiry step which require a bank to respond "within seconds" to the message inquiry as this step could provide a barrier to adoption. For the initial service, ICBA recommends that the Fed work with core processors to determine the appropriate approach for message inquiry.
- ICBA applauds the Board for limiting direct access only to banks eligible to hold accounts at the Reserve Banks under applicable federal statutes and Federal Reserve rules, policies, and procedures.
- ICBA maintains that the adjustment of cutoff times for Fedwire and the National Settlement Service along with the extension of the discount window to accommodate evening, weekends and holidays is a vital step toward payments improvement and should be a priority for the Board. ICBA urges the Board to keep this workstream on an accelerated concurrent schedule but separate from FedNow in order to foster widespread industry planning and adoption.

- ICBA supports the development of multiple approaches to liquidity management to enable banks flexibility in managing liquidity associated with a 24x7x365 RTGS settlement. Such tools should include account transfers, correspondent and agent transfers, automatic transfer of balances (or “sweeps”) based on preestablished thresholds and limits, in addition to the ability to borrow from the Federal Reserve’s discount window.
- ICBA supports the Board’s approach to pricing, as it is transparent and allows community banks the option to identify the best-priced service. Additionally, ICBA requests that FedNow pricing be reasonable, scalable and competitive with private-sector alternatives.
- While ICBA does not believe a request for payment is vital to the initial FedNow Service, customer demand may dictate that customers have a mechanism to request a refund from the recipient in subsequent releases.
- ICBA urges the Federal Reserve to build its own directory, allowing banks to query the directory as part of the FedNow Service. This directory could be extended as part of a federated directory to other networks, such as the Automated Clearing House.
- ICBA does not believe that fraud monitoring is vital to the initial release of FedNow Service. Network-level payment monitoring could alert participating banks of unusual transactions and help prevent fraud. ICBA encourages the Federal Reserve to include network-level fraud monitoring as the FedNow Service matures.
- While ICBA strongly agrees with the Board that interoperability is essential step in gaining ubiquity in real-time payment, we are cognizant that real-time interoperability rests on cooperation between both the public and private sector, of which, the Federal Reserve is but one of the parties.
- ICBA urges both the Federal Reserve and The Clearing House to make a path toward achieving interoperability a priority. Both parties should aim for interoperability as soon as possible, but the Federal Reserve should not stop developing FedNow as the path to interoperability is discussed and charted.

### ***FedNow Benefits for Community Banks***

The FedNow Service will provide countless benefits to community banks and the customers and communities they serve by providing access, enabling choice and fostering settlement resiliency.

Sending and receiving money is a core function of every bank, and access to payment clearing and settlement services are vital for community banks. The Federal Reserve’s primary payments mission is to provide equitable access to the complex, yet vibrant, United States payments

system first for clearing and settlement of checks and later for wire transfers, and then the Automated Clearing House (“ACH”). Community banks have benefited from the option of receiving these services either directly from the Federal Reserve, The Clearing House (“TCH”), or indirectly through correspondent banking relationships.

The establishment of the FedNow Service will ensure equitable access for all financial institutions, while also providing choice, and fostering resiliency for the settlement of real-time payments. Having FedNow operating alongside TCH’s RTP® (“RTP”) network would give community banks and other financial institutions the option of choosing either or both settlement services which opens the door for connecting to a broad array of likely customer-facing and end-user products and service.

While community banks have had, in theory, the choice to participate in TCH’s services, based on publicly-available information, ICBA estimates that less than 10 percent of banks settle directly with TCH for check and ACH services, and only 50 banks receive wire transfer services directly from TCH.<sup>2</sup> FedNow ensures that all banks have access to real time payments and serves as an important step to ensuring ubiquity in the emerging settlement rail.

ICBA anticipates that this public/private sector competition would yield a myriad of benefits to community banks comparable to the benefits they enjoy with check and ACH processing. These benefits include (but not limited to) lower prices, higher service quality, and increased innovation.

An additional benefit to community banks is settlement resiliency. Having only a single RTGS service for faster payments would also create a single point of failure. An additional RTGS service for faster payments would promote resiliency through redundancy, a common solution in many retail payment systems. With the FedNow Service, banks and the customers and communities they serve would have stability and support in normal times and in times of stress.

### ***Expedited Development of a Minimally-Viable FedNow Service.***

In the Federal Register Notice and Request for Comment, the Board expresses its commitment to launching FedNow as soon as practicably possible and anticipates the Service will be available in 2023 or 2024. The Board also expects that it will take additional time for any service, including FedNow or a private-sector service, to achieve nationwide reach.

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<sup>2</sup> <https://www.theclearinghouse.org/payment-systems/chips>

ICBA understands the complexity of developing and launching FedNow, and the need to balance speed to market with service features that are essential for community banks to offer customer-facing services competitive with the banks using RTP. However, ICBA strongly urges the Board to expeditiously proceed to market with a minimally-viable Service which would allow community banks the choice of using FedNow or RTP or both. This approach would encourage broader adoption among community banks.

An earlier launch would concurrently encourage broader adoption among community banks. Conversely, taking a linear approach with 4-5 years to develop an optimal service and another 4-5 years to gain ubiquitous adoption could result in some community banks waiting up to 10 years for the service.

### ***FedNow Service Functionality***

In its outline of the initial FedNow Service, the Board recommends that the Service should be designed to support credit (push) transfers, where a sender initiates a payment to an intended receiver for a variety of use cases, such as person-to-person payments, bill payments, and business-to-business payments. The basic functionality would process individual payments 24 hours a day, 7 days a week, 365 days a year.

Participating banks would access the FedNow Service through the FedLine® network, which would be enhanced to support the Service's 24x7x365 processing. Participating banks and their core processors would need to deploy and test enhanced or upgraded FedLine components to enable the FedNow Service. ICBA supports access through FedLine, as community banks currently have access to FedLine either directly or indirectly via correspondent banking relationships. Accessibility to FedNow through payments hubs and core independent models would be attractive configurations for some community banks.

All settlement entries for transactions through FedNow would be final, meaning that settlement cannot be cancelled or revoked once a transaction is processed. Consistent with the goal of supporting faster payments, use of the Service would require participating banks to make the funds associated, with individual payments, available to their end-user customers immediately after receiving notification of settlement from the Service. The FedNow Service would have clearing functionality with messages containing information required to complete end-to-end payments using the ISO 20022 messaging standard (which is used by TCH's RTP service, as well as internationally).

ICBA generally agrees with the initial FedNow design. This general functionality will serve as an excellent foundation for the Service, supporting initial functionality and providing the flexibility to increase its functionality in the future.

While ICBA agrees with the Board's step-by-step process for a FedNow transaction as a desired outcome, some steps could be eliminated, and initial service levels could be relaxed to accommodate an earlier launch. Specifically, the message inquiry step may be a barrier to adoption for some bank's core processing systems as this process may not be able to be accomplished "within seconds" in many community bank's core processing systems. For the minimally-viable Service, ICBA recommends that the Federal Reserve work with core processors to determine the appropriate approach for message inquiry.

Community banks believe the initial transaction dollar limit of \$25,000 would be insufficient to support a variety of use cases, particularly for business-to-business transactions. Additionally, by the anticipated launch of the Service, both same-day ACH and RTP limits will be significantly higher. ICBA urges the Board to adopt a dollar limit, that is consistent with both of these networks.

Initially, FedNow would establish a "business day" by setting opening (beginning-of-day) and closing (end-of-day) times (in eastern time). This business day would be used to determine end-of-day balances and conduct associated reserve and interest calculations, as well as for transaction reporting and account reconciliation purposes. The existence of these opening and closing times would not affect the service's 24x7x365 continuous processing of payments. End-of-day balances would be calculated for master accounts on each calendar day, including weekends and holidays. Banks would be expected to manage their accounts to have a positive end-of-day account balance each day and avoid overnight overdrafts. ICBA supports this definition of "business day."

### ***Non-Bank Access***

A secure and well-regulated payment system is vital all financial institutions and their customers and communities they serve. The Board has played a valuable role by limiting direct access only to banks eligible to hold accounts at the Reserve Banks under applicable federal statutes and Federal Reserve rules, policies, and procedures for check, wire transfer and ACH. This has ensured the integrity of the payments system by requiring banks to monitor and manage the risk related to customers that it sends transactions on behalf of.

In its announcement of FedNow, the Board has maintained this standard for direct access. This ensures direct access to community banks while limiting the risk related to unregulated, lightly-examined companies.

ICBA applauds the Board for limiting direct access only to banks eligible to hold accounts at the Reserve Banks under applicable federal statutes and Federal Reserve rules, policies, and procedures.

### ***Liquidity and Intraday Credit Management***

The introduction of a 24x7x365 real-time payments rail could pose liquidity issues for transactions that occur after business hours or on holidays and weekends. ICBA continues to support the Federal Reserve taking an operational role in managing liquidity and intraday credit.

The Board is conducting analysis of when it may be beneficial to extend discount window operations to include weekends or holidays; however, it has indicated that, initially, discount window loan originations would likely not be available on weekends and holidays, and would continue to be available until the close of the Fedwire Funds Service on Fridays under the same or similar terms as today. The Board intends to engage with the industry to consider features and tools to assist institutions with the effective management of intraday and end-of-day account balances.

ICBA maintains that the adjustments of cutoff times for the Fedwire Funds Service and the National Settlement Service (NSS) along with the extension of the discount window to accommodate evening, weekends and holidays is a vital step toward payments improvement, and should be a priority for the Board. This will benefit both public and private sector RTGS systems as well as improving the payment settlement services, such as check, ACH and wire transfer. Because of the overall benefit to all payment types, ICBA urges the Board to keep this workstream on an accelerated, concurrent schedule, but separate from FedNow.

Additionally, ICBA supports the development of multiple approaches to liquidity management to enable banks flexibility in managing liquidity associated with the FedNow Service. Such tools should include account transfers, correspondent and agent transfers, automatic transfer of balances (or “sweeps”) based on pre-established thresholds and limits, in addition to the ability to borrow from the Federal Reserve’s discount window.

### ***Service Pricing***

Before the FedNow is launched, the Board will announce the Service’s fee structure and schedule. Based on prevailing market practices, the Board expects that the fee structure would include a combination of per-item fees, charged to sending and potentially to receiving banks, and fixed participation fees. Separate per-item fees could also be charged for other message types that may be offered in the future. ICBA supports the Board’s approach to pricing, as it is

transparent and allows community banks the option to identify the best-priced service. Additionally, ICBA requests that FedNow fees are reasonable, scalable and competitive with the private sector.

### ***Request for Payment and Payment Recall***

In the FedNow Service, a request for payment would be a separate nonvalue message type that, when received through an end-user service, would prompt a sender to initiate a payment to the receiver who is requesting funds. The request for payment functionality allows a sender to authorize a credit transfer in real-time, based on the receiver's request message. This functionality would allow a sender to retain control of the authorization in sending a payment in real-time, help avoid mistakes sending payments to the wrong party, and reduce the fraud risk relative to that of debit.

While ICBA does not believe this functionality is vital to the initial Service rollout, customer demand may dictate that customers have a mechanism to request a refund from the recipient. While a FedNow credit is irrevocable, a request for payment would assist the customer in error resolution and should be developed and included in subsequent updates to FedNow.

### ***Directory Service***

ICBA has consistently advocated for the ability to originate payments using a receiver's public identifier, such as an email address or cell phone number, via a directory. A directory would drive adoption for person-to-person and small business payments that are settled via the FedNow Service; however, the sender's bank must have the banking information of the receiver. Therefore, if a sender wants to originate a payment using a public identifier, the sender's bank would need to locate the banking information of the intended receiver using the public identifier. A directory that connects public identifiers with receivers' banking information would provide the sender's bank with the needed information. Moreover, a directory service would enable the exchange of a receiver's public identifier in lieu of the receiver's full bank account information, thereby strengthening the security and privacy of the accountholder information.

ICBA urges the Reserve Banks to build their own directory to enable banks to query the directory as part of the FedNow Service. While ICBA does not believe this service is vital to the initial FedNow rollout, an alias directory is essential to customer adoption of services settled via FedNow and should be incorporated in subsequent updates to FedNow. Later, this service could be expanded into a federated directory model and be used for ACH transactions.

### ***Fraud Prevention Services***

Strong security is essential to help banks manage the risks associated with real-time payments. Traditionally, payment security is the responsibility of community banks and their customers. Having a system limited to fully chartered, regulated and examined financial institutions is critical to the security of a payments settlement service.

While ICBA does not believe fraud monitoring is vital to the initial release of FedNow, network-level payment monitoring could alert participating banks of unusual transactions and help prevent fraud. ICBA encourages the Reserve banks to include network- level fraud monitoring as the FedNow Service matures.

### ***Interoperability***

While ICBA strongly agrees with the Board that interoperability is an essential step in gaining ubiquity in real-time payments, we are cognizant that real-time interoperability rests on cooperation between both the public and private sectors, of which, the Federal Reserve is but one of the parties. ICBA urges both the Federal Reserve and TCH to make a path toward achieving interoperability a priority. Both parties should aim for interoperability at the earliest possible date, but the Federal Reserve should not delay developing FedNow as the path to interoperability is discussed and charted.

Additionally, if the FedNow Service provides access to intraday credit under the same terms and conditions as for current Federal Reserve services, the Federal Reserve would expect banks to manage their master accounts at all times in compliance with Federal Reserve policies. Further, because the Board does not expect that the discount window would be available initially on weekends and holidays, participants in the FedNow Service would need to manage their master accounts more actively during those times to avoid overnight overdrafts. In the private-sector service, participants are able to use intraday credit available to them under the Federal Reserve's Payment System Risk Policy to fund the joint account.

FedNow and RTP require participants to manage their account positions in different ways, presenting different challenges for some banks. The FedNow Service's use of master accounts requires consideration of the defined closing and opening of other Federal Reserve payment services also settling in the same account.

### **Conclusion**

Digital technology and mobile access have changed customer expectations regarding customer expectations regarding payments. Customers expect to be able to send and receive money 365

days a year regardless of holidays, weekends, or bank operating hours. While the U.S. payments system has served community banks and the customers and communities that serve, the addition of a ubiquitous and universal access to payment settlement service is essential for banks to continue to move money on behalf of their customers.

The Federal Reserve's announcement of the FedNow Service serves as a safe, reliable cornerstone to payments innovation for years to come. FedNow will enable ubiquity and ensure access among community banks while enabling choice and settlement resiliency. An expeditious rollout of FedNow is vital to creating a real-time payments ecosystem that community banks are an integral part of.

ICBA looks forward to continuing to work with the Federal Reserve as it develops and implements FedNow to maximize access and encourage choice for community banks and the local customers and communities they serve.

ICBA appreciates the opportunity to comment on this request for comment. Please do not hesitate to contact me at [Cary.Whaley@icba.org](mailto:Cary.Whaley@icba.org) or (202) 659-8111 with any questions regarding our comments.

Sincerely,

/s/

Cary Whaley  
First Vice President, Payments and Technology Policy